C-570-997
Investigation
POI: 01/01/2012 – 12/31/2012
Public Document
AD/CVD Office I

October 6, 2014

MEMORANDUM TO: Paul Piquado
Assistant Secretary
for Enforcement and Compliance

FROM: Christian Marsh
Deputy Assistant Secretary
for Antidumping and Countervailing Duty Operations

SUBJECT: Issues and Decision Memorandum for the Final Determination in the Countervailing Duty Investigation of Non-Oriented Electrical Steel from the People's Republic of China

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I. SUMMARY

The Department of Commerce (the Department) determines that countervailable subsidies are being provided to producers and exporters of non-oriented electrical steel (NOES) in the People's Republic of China (the PRC), as provided in section 705 of the Tariff Act of 1930, as amended (the Act). The mandatory respondent in this investigation is Baoshan Iron & Steel Co., Ltd. (Baoshan). The petitioner is AK Steel Corporation (hereinafter, Petitioner).

II. BACKGROUND

A. Case History

On March 25, 2014, we published the *Preliminary Determination* in this investigation.[1] In the *Preliminary Determination* we stated case briefs or other written comments for all non-scope issues may be submitted *via* Enforcement and Compliance's Antidumping and Countervailing Duty Centralized Electronic Service System (IA ACCESS) no later than 30 days after the publication of the *Preliminary Determination*.[2] No parties submitted a case brief. We recommend that you approve the positions we describe in this memorandum.

[1] *See Non-Oriented Electrical Steel From the People's Republic of China: Preliminary Affirmative Countervailing Duty Determination, Preliminary Affirmative Critical Circumstances Determination, and Alignment of Final Countervailing Duty Determination With Final Antidumping Duty Determination*, 79 FR 16293 (March 25, 2014) (*Preliminary Determination*).
[2] *Id.*, 79 FR at 16293-94.

B. Period of Investigation

The period of investigation (POI) is January 1, 2012, through December 31, 2012.

III. SCOPE OF THE INVESTIGATION

The merchandise subject to this investigation consists of non-oriented electrical steel (NOES), which includes cold-rolled, flat-rolled, alloy steel products, whether or not in coils, regardless of width, having an actual thickness of 0.20 mm or more, in which the core loss is substantially equal in any direction of magnetization in the plane of the material.[3] The term "substantially equal" means that the cross grain direction of core loss is no more than 1.5 times the straight grain direction (*i.e.*, the rolling direction) of core loss. NOES has a magnetic permeability that does not exceed 1.65 Tesla when tested at a field of 800 A/m (equivalent to 10 Oersteds) along (*i.e.*, parallel to) the rolling direction of the sheet (*i.e.*, B_{800} value). NOES contains by weight more than 1.00 percent of silicon but less than 3.5 percent of silicon, not more than 0.08 percent of carbon, and not more than 1.5 percent of aluminum. NOES has a surface oxide coating, to which an insulation coating may be applied.

NOES is subject to this investigation whether it is fully processed (*i.e.*, fully annealed to develop final magnetic properties) or semi-processed (*i.e.*, finished to final thickness and physical form but not fully annealed to develop final magnetic properties). Fully processed NOES is typically made to the requirements of ASTM specification A 677, Japanese Industrial Standards (JIS) specification C 2552, and/or International Electrotechnical Commission (IEC) specification 60404-8-4. Semi-processed NOES is typically made to the requirements of ASTM specification A 683. However, the scope of this investigation is not limited to merchandise meeting the ASTM, JIS, and IEC specifications noted immediately above.

NOES is sometimes referred to as cold-rolled non-oriented (CRNO), non-grain oriented (NGO), non-oriented (NO), or cold-rolled non-grain oriented (CRNGO) electrical steel. These terms are interchangeable.

Excluded from the scope of this investigation are flat-rolled products not in coils that, prior to importation into the United States, have been cut to a shape and undergone all punching, coating, or other operations necessary for classification in Chapter 85 of the Harmonized Tariff Schedule of the United States (HTSUS) as a part *(i.e.*, lamination) for use in a device such as a motor, generator, or transformer.

The subject merchandise is provided for in subheadings 7225.19.0000, 7226.19.1000, and 7226.19.9000 of the HTSUS. Subject merchandise may also be entered under subheadings 7225.50.8085, 7225.99.0090, 7226.92.5000, 7226.92.7050, 7226.92.8050, 7226.99.0180 of the HTSUS. Although HTSUS subheadings are provided for convenience and customs purposes, the written description of the scope is dispositive.

[3] *See Non-Oriented Electrical Steel From the People's Republic of China: Preliminary Affirmative Determinations of Sales at Less Than Fair Value and Critical Circumstances*, 79 FR 29421 (May 22, 2014), and accompanying Preliminary Decision Memorandum at "IV. Scope Comments" at 3-5, for background regarding the change in scope as included in our *Preliminary Determination*.

IV. USE OF FACTS OTHERWISE AVAILABLE AND ADVERSE INFERENCES

Sections 776(a)(1) and (2) of the Act provide that the Department shall, subject to section 782(d) of the Act, apply "facts otherwise available" if necessary information is not on the record or if an interested party or any other person: (A) withholds information that has been requested; (B) fails to provide information within the deadlines established, or in the form and manner requested by the Department, subject to subsections (c)(1) and (e) of section 782 of the Act; (C) significantly impedes a proceeding; or (D) provides information that cannot be verified as provided by section 782(i) of the Act.

Section 776(b) of the Act further provides that the Department may use an adverse inference in applying the facts otherwise available when a party fails to cooperate by not acting to the best of its ability to comply with a request for information.

As discussed in the *Preliminary Determination*, neither Baoshan nor the Government of the PRC (GOC) responded to the Department's initial questionnaire.[4] We sent the initial questionnaire to the GOC *via* e-mail and confirmed receipt.[5] We mailed *via* Federal Express (FedEx) the initial questionnaire to the address for Baoshan listed in the Petition.[6] As discussed in the Delivery Confirmation Memorandum, the address for Baoshan as listed in the Petition was undeliverable, so we searched the internet for an alternative address, and sent it to the Baosteel Group Corporation *via* FedEx.[7] Subsequently, we confirmed receipt of the initial questionnaire.[8] Since the confirmed delivery date of the initial questionnaire occurred after the due date, we extended the deadline to be 30 days from when the questionnaire was actually received.[9] We confirmed that Baoshan received the letter extending the deadline for responding to the initial questionnaire.[10] Baoshan did not respond to our initial questionnaire. Accordingly, by not responding to our questionnaires, Baoshan and the GOC withheld information that we requested and significantly impeded our ability to conduct this investigation. Thus, we must rely on facts otherwise available in accordance with section 776(a)(2)(A) and (C) of the Act.

In selecting from among the facts available, we determined that an adverse inference is warranted, pursuant to section 776(b) of the Act. By failing to submit a response to our initial countervailing duty (CVD) questionnaire, Baoshan and the GOC did not cooperate to the best of their ability in this investigation. Thus, we find that both Baoshan and the GOC failed to cooperate in this investigation, and as such, this determination is based on total adverse facts available (AFA).

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[4] *See Preliminary Determination*, and accompanying Preliminary Decision Memorandum at "Use of Facts Otherwise Available and Adverse Inferences."
[5] *See* Memorandum to the File, "Confirmation of Receipt of Initial Questionnaire" (January 24, 2014).
[6] *See* Memorandum to the File, "Tracking History and Delivery Confirmation of Initial Questionnaire to Baoshan Iron & Steel Co., Ltd." (March 7, 2014) (Delivery Confirmation Memorandum); *see also* Letter from Petitioner, "Petitions For The Imposition Of Antidumping And Countervailing Duties Against Non-Oriented Electrical Steel From China, Germany, Japan, Korea, Sweden, and Taiwan" (September 30, 2013) (Petition) at Exhibit I-4.
[7] *See* Delivery Confirmation Memorandum at Attachments 1 and 2.
[8] *Id*., at Attachment 2.
[9] *See* Letter from Nancy Decker, Program Manager, Office I, AD/CVD Operations, to Baoshan Iron & Steel Co., Ltd., courtesy of Chairman Xu Leijang, Baosteel Group Corporation, "Countervailing Duty Investigation: Non-Oriented Electrical Steel from People's Republic of China" (February 7, 2014).
[10] *See* Delivery Confirmation Memorandum at Attachments 3 and 4.

A. Selection of the Adverse Facts Available Rate

In deciding which facts to use as AFA, section 776(b) of the Act and 19 CFR 351.308(c)(1) authorize the Department to rely on information derived from (1) the petition, (2) a final determination in the investigation, (3) any previous review or determination, or (4) any information placed on the record. Our practice when selecting an adverse rate from among the possible sources of information is to ensure that the result is sufficiently adverse "as to effectuate the statutory purposes of the AFA rule to induce respondents to provide us with complete and accurate information in a timely manner."[11] Our practice also ensures "that the party does not obtain a more favorable result by failing to cooperate than if it had cooperated fully."[12]

Because the GOC failed to act to the best of its ability in this investigation, we are adversely inferring that under the programs at issue in this investigation, there is a financial contribution from an "authority" within the meaning of sections 771(5)(B) and 771(5)(D) of the Act. We are also adversely inferring that the programs at issue meet the specificity requirements of section 771(5A) of the Act. Further, because the GOC and Baoshan failed to cooperate to the best of their abilities, we are adversely inferring that each program conferred a benefit within the meaning of section 771(5)(E) of the Act. A description of the programs at issue in this investigation is attached to this memorandum.[13]

It is our practice in a CVD investigation to select, as AFA, the highest calculated rate for the same or similar program.[14] When selecting rates, we first determine if there is an identical program in the investigation with a rate above zero (or if none in the investigation, we look for the identical program with an above *de minimis* rate in previous cases from the same country), and take the highest calculated rate for the identical program.[15] If there is no identical program, we then determine if there is a similar/comparable program (based on treatment of the benefit) in any proceeding from that country and apply the highest calculated rate for a similar/comparable program.[16] Where there is no comparable program, we apply the highest calculated rate from any non-company specific program but do not use a rate from a program if the industry in the proceeding cannot use that program.[17]

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[11] *See Notice of Final Determination of Sales at Less Than Fair Value: Static Random Access Memory Semiconductors From Taiwan*, 63 FR 8909, 8932 (February 23, 1998).
[12] *See* Statement of Administrative Action (SAA) accompanying the Uruguay Round Agreements Act (URAA), H. Doc. No. 16, 103d Cong. 2d Session at 870 (1994).
[13] *See* Attachment.
[14] *See, e.g.*, *Laminated Woven Sacks From the People's Republic of China: Final Affirmative Countervailing Duty Determination and Final Affirmative Determination, in Part, of Critical Circumstances*, 73 FR 35639 (June 24, 2008), and accompanying Issues and Decision Memorandum at "Selection of the Adverse Facts Available;" *Aluminum Extrusions From the People's Republic of China: Final Affirmative Countervailing Duty Determination*, 76 FR 18521 (April 4, 2011) (*Aluminum Extrusions Investigation*), and accompanying Issues and Decision Memorandum at "Application of Adverse Inferences: Non-Cooperative Companies;" and *Galvanized Steel Wire From the People's Republic of China: Final Affirmative Countervailing Duty Determination*, 77 FR 17418 (March 26, 2012) (*Steel Wire Investigation*), and accompanying Issues and Decision Memorandum at "Use of Facts Otherwise Available and Adverse Inferences."
[15] *See, e.g.*, *Aluminum Extrusions From the People's Republic of China: Final Results of Countervailing Duty Administrative Review; 2010 and 2011*, 79 FR 106 (January 2, 2014), and accompanying Issues and Decision Memorandum at 8-9.
[16] *Id*.
[17] *See, e.g.*, *Aluminum Extrusions Investigation* and *Steel Wire Investigation*.

Because Baoshan failed to act to the best of its ability in this investigation, as discussed above, we made an adverse inference that Baoshan benefitted from each program examined. To calculate the program rate for the nine alleged income tax programs pertaining to either the reduction of income tax paid or the payment of no income tax, we applied an adverse inference that Baoshan paid no income tax during the POI. The standard income tax rate for corporations in the PRC in effect during the POI was 25 percent.[18] Thus, the highest possible benefit for these nine income tax programs is 25 percent. Accordingly, we are applying the 25 percent AFA rate on a combined basis (*i.e.*, the nine programs combine to provide a 25 percent benefit). Consistent with past practice, the 25 percent AFA rate does not apply to the income tax credit and rebate, accelerated depreciation, or import tariff and value add tax (VAT) exemption programs because such programs may not affect the tax rate.[19]

For all programs other than those involving income tax rate reduction or exemptions, we are applying, where available, the highest subsidy rate calculated for the same or similar program in a PRC CVD investigation or administrative review. For this final determination, we updated the rates below based on recent PRC CVD investigations and administrative reviews.[20] Additionally, in a change from the *Preliminary Determination*, for the Policy Lending and Preferential Loans to State-Owned Enterprises (SOEs) programs, consistent with *GOES from the PRC*, we are using a single AFA rate because an analysis of the specifics of these two allegations in this investigation reveals they would apply to the same loans provided by state-owned commercial banks.[21] Thus, we are able to match based on program name, descriptions, and treatment of the benefit, the following programs to the same programs from other PRC CVD proceedings:

- Preferential Export Financing from the Export-Import Bank of China;[22]
- Tax Credits for Domestically-Owned Companies Purchasing Chinese-Made Equipment;[23]
- VAT Rebates on Domestically Produced Equipment;[24] and
- Provision of Electricity for Less Than Adequate Remuneration (LTAR).[25]

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[18] *See* Petition, Volume VIII at 19-20.
[19] *See, e.g.*, *Aluminum Extrusions Investigation* at "Application of Adverse Inferences: Non-Cooperative Companies."
[20] *See, e.g.*, *Grain-Oriented Electrical Steel from the People's Republic of China: Final Affirmative Countervailing Duty Determination*, 79 FR 59221 (October 1, 2014) (*GOES from the PRC*), and accompanying Issues and Decision Memorandum at "Use of Facts Otherwise Available and Adverse Inferences."
[21] *Id*.
[22] *See Certain Seamless Carbon and Alloy Steel Standard, Line, and Pressure Pipe from the People's Republic of China: Final Affirmative Countervailing Duty Determination, Final Affirmative Critical Circumstances Determination*, 75 FR 57444 (September 21, 2010), and accompanying Issues and Decision Memorandum at "B. Export Loans from the Export-Import Bank of China."
[23] *See Certain Steel Grating from the People's Republic of China: Final Affirmative Countervailing Duty Determination*, 75 FR 32362 (June 8, 2010), and accompanying Issues and Decision Memorandum at 14, "3. Income Tax Credits for Domestically Owned Companies Purchasing Domestically Produced Equipment."
[24] *See Certain Magnesia Carbon Bricks From the People's Republic of China: Final Affirmative Countervailing Duty Determination*, 75 FR 45472 (August 2, 2010), and accompanying Issues and Decision Memorandum at "1. VAT Rebates on Purchases of Domestically Produced Equipment."
[25] *See Certain Oil Country Tubular Goods From the People's Republic of China: Final Results of Countervailing Duty Administrative Review; 2011*, 78 FR 49475 (August 14, 2013), and accompanying Issues and Decision Memorandum at "B. Provision of Electricity for LTAR."

We are able to match based on program type and treatment of the benefit the following programs to similar programs from other PRC CVD proceedings:

- Policy Loans to the NOES Industry;[26]
- Preferential Loans for SOEs;[27]
- Treasury Bonds and Grants;[28]
- Tax Offsets for Research and Development (R&D) at Foreign-Invested Enterprises (FIEs);[29]
- Tax Refunds for Reinvestment of FIE Profits in Export-Oriented Enterprises;[30]
- Shanghai Municipal Tax Refund for High-tech Achievement Commercialization Projects;[31]
- Import Tariff and VAT Exemptions for FIEs and Certain Domestic Enterprises Using Imported Equipment in Encouraged Industries;[32]
- VAT Rebates on FIE Purchases of Chinese-Made Equipment;[33]
- Exemptions From Administrative Charges for Companies in Industrial Zones *and* the Provision of Land Use Rights – Certain Industrial and Special Economic Zones (SEZs);[34]
- Provision of Land Use Rights – Allocated Land Use Rights for SOEs for LTAR;[35]
- The State Key Technology Renovation Fund; [36]
- Famous Brands Awards;[37]
- Special Fund for Energy Saving Technology Reform;[38]

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[26] *See Certain Coated Paper Suitable for High-Quality Print Graphics Using Sheet-Fed Presses From the People's Republic of China: Amended Final Affirmative Countervailing Duty Determination and Countervailing Duty Order*, 75 FR 70201 (November 17, 2010) (*Coated Paper Investigation Amended Final*), and accompanying Ministerial Error Memorandum (MEM) at "Revised Net Subsidy Rate for the Gold Companies." This document is proprietary in nature. However, the public version states the revised subsidy rates which include, *infra*, the policy lending rate (Policy Loans to Coated Paper Producers and Related Pulp Producers from State-Owned Commercial Banks and Government Policy Banks program).

[27] *Id*.

[28] *See Coated Paper Investigation Amended Final* and accompanying MEM at "Revised Net Subsidy Rate for the Gold Companies." (Policy Loans to Coated Paper Producers and Related Pulp Producers from State-Owned Commercial Banks and Government Policy Banks program.)

[29] *See New Pneumatic Off-the-Road Tires From the People's Republic of China: Preliminary Results of Countervailing Duty Administrative Review*, 75 FR 64268, 64275 (October 19, 2010) (*Tires from the PRC Preliminary Results)* at "C. VAT and Import Duty Exemptions on Imported Material," unchanged in final *New Pneumatic Off-the-Road Tires From the People's Republic of China: Final Results of Countervailing Duty Administrative Review*, 76 FR 23286 (April 26, 2011) (*Tires from the PRC Final Results*).

[30] *Id.*

[31] *Id*.

[32] *Id.*

[33] *Id.*

[34] *See Aluminum Extrusions Investigation* and accompanying Issues and Decision Memorandum at "T. Provision of Land-Use Rights and Fee Exemptions To Enterprises Located in the ZHITDZ for LTAR." We note that the program from *Aluminum Extrusions Investigation* is a combination of two programs in the instant investigation.

[35] *See Oil Country Tubular Goods from the People's Republic of China: Final Affirmative Countervailing Duty Determination, Final Negative Critical Circumstances Determination*, 74 FR 64045 (December 7, 2009), and accompanying Issues and Decision Memorandum at "I. Subsidies Provided in the TBNA and the Tianjin Economic and Technological Development Area – Land."

[36] *See Utility Scale Wind Towers from the People's Republic of China: Final Affirmative Countervailing Duty Determination*, 77 FR 75978 (December 26, 2012) (*Wind Towers Investigation*), and accompanying Issues and Decision Memorandum at "8. Support Funds for Construction of Project Infrastructure Provided by Administration Commission of LETDZ."

[37] *Id*.

- Grants for Listing Shares;[39]
- Grants to Baoshan;[40] and
- Shanghai Municipal Subsidy to Coal-Fired Power Plants for Emissions Reduction.[41]

In applying the highest calculated subsidy rate for the sole remaining program, the GOC's Purchase of Goods for More Than Adequate Remuneration (MTAR), we note that this program, or a similar type of program based on the treatment of the benefit, has not been calculated in a prior PRC CVD proceeding. Accordingly, as AFA, following our practice, we applied the highest calculated subsidy rate for any PRC program that conceivably could be used by the non-cooperative respondent. We determine this rate is 44.84, for the GOC's provision of hot-rolled steel for LTAR, which was calculated in *CWP from the PRC*.[42]

B. Corroboration of Secondary Information

Section 776(c) of the Act provides that, when the Department relies on secondary information rather than on information obtained in the course of an investigation or review, it shall, to the extent practicable, corroborate that information from independent sources that are reasonably at its disposal. Secondary information is defined as "information derived from the petition that gave rise to the investigation or review, the final determination concerning the subject merchandise, or any previous review under section 751 concerning the subject merchandise."[43] The SAA provides that to "corroborate" secondary information, the Department will satisfy itself that the secondary information to be used has probative value.[44]

We will, to the extent practicable, examine the reliability and relevance of the information to be used. The SAA emphasizes, however, that we need not prove that the selected facts available are the best alternative information.[45]

With regard to the reliability aspect of corroboration, unlike other types of information, such as publicly available data on the national inflation rate of a given country or national average interest rates, there typically are no independent sources for data on company-specific benefits resulting from countervailable subsidy programs. With respect to the relevance aspect of corroboration, we will consider information reasonably at its disposal in considering the relevance of information used to calculate a countervailable subsidy benefit. The Department will not use information where circumstances indicate that the information is not appropriate as AFA.[46]

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[38] *Id*.
[39] *Id.*
[40] *Id.*
[41] *Id.*
[42] *See CWP from the PRC*, and accompanying Issues and Decision Memorandum at "A. Hot-rolled Steel for Less Than Adequate Remuneration."
[43] *See* SAA, at 870.
[44] *Id*.
[45] *Id*., at 869-870.
[46] *See, e.g., Fresh Cut Flowers From Mexico; Final Results of Antidumping Duty Administrative Review*, 61 FR 6812 (February 22, 1996).

In the absence of record evidence concerning the alleged programs due to the respondents' decision not to participate in the investigation, we reviewed the information concerning PRC subsidy programs in other cases. Where we have a program-type match, we find that, because these are the same or similar programs, they are relevant to the programs in this case. For the programs for which there is no program-type match, we have selected the highest calculated subsidy rate for any PRC program, from which the non-cooperative respondent could conceivably receive a benefit, to use as AFA. The relevance of these rates is that they are actual calculated CVD rates for PRC programs, from which the non-cooperative respondent could actually receive a benefit. Due to the lack of participation by the respondents and the resulting lack of record information concerning these programs, the Department corroborated the rates it selected to use as AFA to the extent practicable for this final determination.

On this basis, we determine the AFA countervailable subsidy rate for Baoshan to be 158.88 percent *ad valorem*.

C. Subsidy Rate Chart

Program Name	AFA Rate
Policy Loans to the NOES Industry	10.54%
Preferential Loans for SOEs	
Preferential Export Financing from the Export-Import Bank of China	1.06%
Treasury Bonds and Grants	10.54%
Two Free, Three Half	25.00%
Tax Reductions for FIEs Purchasing Chinese-Made Equipment	
Tax Reductions for FIEs in Designated Geographic Locations	
Tax Reductions for Technology- or Knowledge-Intensive FIEs	
Tax Reductions for FIEs that are also High- or New-Technology Enterprises (HNTEs)	
Tax Reductions for HNTEs Involved in Certain Projects	
Tax Reductions for Export-Oriented FIEs	
Reduction of Taxable Income for Enterprises Comprehensively Utilizing Resources[47]	
Additional Deduction of Taxable Income for R&D Expenses on New Technologies, New Products, and New Techniques	
Tax Offsets for R&D at FIEs	9.71%
Tax Credits for Domestically-Owned Companies Purchasing Chinese-Made Equipment	1.68%
Tax Refunds for Reinvestment of FIE Profits in Export-Oriented Enterprises	9.71%
Shanghai Municipal Tax Refund for High-tech Achievement Commercialization Projects[48]	9.71%

[47] New subsidy allegation.
[48] *Id*.

Import Tariff and VAT Exemptions for FIEs and Certain Domestic Enterprises Using Imported Equipment in Encouraged Industries	9.71%
VAT Rebates on FIE Purchases of Chinese-Made Equipment	9.71%
Exemptions From Administrative Charges for Companies in Industrial Zones *and* the Provision of Land-Use Rights for LTAR – Certain Industrial and SEZs	4.97%
VAT Rebates on Domestically Produced Equipment	0.51%
Provision of Land-Use Rights for LTAR – Allocated Land Use Rights for SOEs	2.55%
Provision of Electricity for LTAR	5.34%
The State Key Technology Renovation Fund	0.55%
Famous Brands Awards	0.55%
Special Fund for Energy Saving Technology Reform	0.55%
Grants for Listing Shares	0.55%
Grants to Baoshan	0.55%
Shanghai Municipal Subsidy to Coal-Fired Power Plants for Emissions Reduction[49]	0.55%
GOC Purchases of NOES for MTAR	44.84%
Total Benefit =	**158.88%**

V. RECOMMENDATION

We recommend approving all of the above positions and adjusting all related countervailable subsidy rates accordingly. If these Department positions are accepted, we will publish the final determination in the *Federal Register* and will notify the ITC of our determination.

✓
Agree

Disagree

Paul Piquado
Assistant Secretary
for Enforcement and Compliance

6 OCTOBER 2014
(Date)

[48] *Id.*
[49] *Id.*

Attachment

Description of Programs

Below is a description of the programs initiated on by the Department as described by Petitioner.

Policy Loans to the NOES Industry

Description: The GOC has encouraged the development of the specialty steel industry, which includes producers of NOES, through financial support from state-owned commercial banks and Policy Banks. National and local authorities are directed to support the "encouraged" specialty steel producers of NOES through "financial policies" including, *inter alia*, policy lending.

Preferential Export Financing from the Export-Import Bank of China

Description: PRC exporters of NOES are eligible to receive special export financing because the production of silicon steel, such as NOES, is encouraged by the GOC. The Export-Import Bank of China is a state-owned policy bank that supports the exports of Chinese electromechanical products and high-tech products.

Treasury Bonds and Grants

Description: The GOC annually announces that certain projects will receive financial support through Treasury bond proceeds.

Preferential Loans for SOEs

Description: The GOC provides preferential lending to SOEs, and certain NOES producers are, or have been, state- or collectively-owned enterprises.

Two Free, Three Half

Description: A FIE that is "productive" and is scheduled to operate for more than ten years may, *inter alia*, be exempted from income tax in the first two years of profitability and pay income taxes at half the standard rate for the next three years.

Tax Reductions for FIEs Purchasing Chinese-Made Equipment

Description: The GOC permits FIEs to obtain tax credits of up to 40 percent of the purchase value of domestically-produced equipment in certain circumstances. The credit is available to FIEs (and other firms with foreign ownership) engaged in projects which are classified in either the Encouraged or Restricted B categories of the *Catalog of Industrial Guidance for Foreign Investment*, and applies to any domestically-produced equipment so long as the equipment is not listed in the *Catalog of Non-Duty-Exemptible Articles of Importation*.

Tax Reductions for FIEs in Designated Geographic Locations

Description: The GOC uses special tax rates to encourage FIEs to locate in designated coastal economic development zones, special economic zones, and economic and technical development zones. Under Article 7 of the *FIE Tax Law* and Article 71 of *Decree 85*, "productive" FIEs located in the designated economic zones pay enterprise income tax at a reduced rate of either 15 or 24 percent, depending on the zone.

Tax Reductions for Technology- or Knowledge-Intensive FIEs

Description: This program is available to FIEs that qualify as technology-intensive or knowledge-intensive and have major products listed in the *Catalogue of High and New Technology Products of China*. The GOC authorizes a reduced income tax rate of 15 percent for "productive" FIEs located in coastal economic zones, special economic zones, or economic and technical development zones if they undertake, among other things, technology-intensive or knowledge-intensive projects. FIEs that have been established in zones specified by the State Council and that engage in projects encouraged by the GOC may qualify for the reduced income tax rate of 15 percent upon approval of State Administration of Taxation. Additionally, FIEs having qualified products that account for 50 percent or more of total revenue pay a reduced income tax rate of 15 percent.

Tax Reductions for FIEs that are also HNTEs

Description: The GOC provides tax benefits to FIEs recognized as HNTEs established in state high- or new-technology industrial development zones, and for advanced technology enterprises with foreign investment. FIEs designated as HNTEs established in high- or new-technology industrial development zones pay income tax at the reduced rate of 15 percent. Additionally, Sino-foreign joint ventures scheduled to operate for at least ten years and designated as HNTEs established in high- or new- technology industrial development zones pay no income tax for their first two years of profitability and at half the normal rate for the next three years. Finally, FIEs in high- and new-technology industrial development zones are also eligible to benefit from additional tax preferences administered by the governments of the zones themselves.

Tax Reductions for HNTEs Involved in Certain Projects

Description: Enterprises that are qualified as HNTEs are entitled to a reduced tax rate of 15 instead of 25 percent. Additionally, certain HNTEs located in a SEZ or in the Pudong New District of Shanghai are exempt from income taxes for the first two years after earning income from production and pay only half of the standard tax rate for the next three years

Tax Offsets for Research and Development at FIEs

Description: The GOC maintains preferential tax policies for research and development at FIEs. Specifically, research and development expenses of FIEs conducted in the PRC that have increased ten percent or more from the previous year, may be offset by 50 percent from the taxable income of the year.

Tax Credits for Domestically-Owned Companies Purchasing Chinese-Made Equipment

Description: The GOC offers preferential income tax policies to domestic enterprises if these enterprises upgrade their manufacturing operations with Chinese-made equipment. Specifically, domestic enterprises which upgrade technology consistent with the GOC industrial policies may deduct 40 percent of the cost of equipment from their next year's income tax obligation, and in those circumstances where the income tax due is less than the 40 percent of the cost of the machinery, the remainder of the cost may be deducted in subsequent years, for a period up to five years.

Tax Reductions for Export-Oriented FIEs

Description: An FIE may continue to pay income tax at half the standard rate following the expiration of the five-year term of the "Two Free, Three Half" program if its exports constitute 70 percent of sales. Additionally, export-oriented enterprises in special economic and other specially designated zones already eligible to pay half the standard income tax rate may have their rate further reduced through this program pursuant to *Decree 85*.

Tax Refunds for Reinvestment of FIE Profits in Export-Oriented Enterprises

Description: FIEs that re-invest profits into the same FIE, or use those profits to establish another FIE (or high-technology company), are eligible for complete refunds of the corporate income tax already paid on the invested amount, so long as the recipient of the investment is export-oriented and scheduled to operate for at least five years.

Import Tariff and VAT Exemptions for FIEs and Certain Domestic Enterprises Using Imported Equipment in Encouraged Industries

Description: The GOC exempts both FIEs and certain domestic enterprises in encouraged industries from paying VAT and tariffs on imported equipment not for resale. The objectives of this program are to encourage foreign investment, introduce advanced equipment from abroad into the PRC, and upgrade domestic industrial technology.

VAT Rebates on FIE Purchases of Chinese-Made Equipment

Description: The GOC refunds the VAT on FIE purchases of certain domestically-produced equipment.

Exemptions From Administrative Charges for Companies in Industrial Zones

Description: Producers of subject merchandise that are located in certain industrial zones are likely to benefit from exemptions from GOC administrative charges.

VAT Rebates on Domestically Produced Equipment

Description: The GOC provides FIEs with VAT refunds for purchases of certain domestically produced equipment.

Provision of Land-Use Rights for LTAR – Allocated Land Use Rights for SOEs

Description: NOES producers are eligible to benefit from the GOC's provision of land-use rights for LTAR through their status as SOEs.

Provision of Land-Use Rights for LTAR – Certain Industrial and SEZs

Description: The GOC provides land use rights at preferential rates to enterprises located in special economic zones.

Provision of Electricity for LTAR

Description: NOES producers receive electricity from the GOC for LTAR.

The State Key Technology Renovation Fund

Description: This program is intended to promote: (a) technological renovation in key industries, enterprises, and products; (b) technology upgrades; (c) improvements in product structure; (d) improvements in quality; (e) increases in supply; (f) the expansion of domestic demand; and, (g) further development of the state economy. Under this program, companies apply for funds to cover the cost of financing specific renovation projects, and payments are disbursed in the form of "project investment facility" grants covering two years of interest payments on loans to fund the project, or up to three years for enterprises located in the northeast, central, or western areas of the PRC.

Famous Brands Awards

Description: The GOC, at both the national and provincial levels, provides "Famous Brands" awards to raise the competitiveness of Chinese industries.

Special Fund for Energy Saving Technology Reform

Description: The GOC provides awards to support certain enterprises undertaking energy saving technology reform projects.

Grants for Listing Shares

Description: The GOC offers grants to companies that list their shares on public exchanges.

Grants to Baoshan Iron & Steel Co., Ltd.

Description: Baosteel's 2012 annual report indicates receipt of numerous grants from the GOC.

GOC Purchases of NOES for MTAR

Description: As part of its policy to assist directly in the development and expansion of the NOES industry, the GOC has implemented a program to purchase steel from Chinese producers at prices that exceed world market prices. Such procurements are specific financial contributions that result in a significant benefit to the PRC's NOES producers.

Reduction of Taxable Income for Enterprises Comprehensively Utilizing Resources

Description: Where an enterprise uses the resources stipulated in the "Catalogue for Comprehensive Utilization of Resources Qualified for Enterprise Income Tax Preferential Treatment" as major raw materials in products that are not restricted or prohibited by the GOC and satisfy relevant criteria, ten percent of such income may be excluded from taxable income.

Additional Deduction of Taxable Income for R&D Expenses on New Technologies, New Products, and New Techniques

Description: The GOC provides tax benefits to enterprises that invest in R&D related to new technologies, new products, or new techniques, whereby enterprises may reduce taxable income by an additional 50 percent of the amount of the relevant expenditures where an intangible asset is not formed, and by an additional 150 percent of the amount of the relevant expenditures where an intangible asset is formed.

Shanghai Municipal Tax Refund for High-tech Achievement Commercialization Projects

Description: The Shanghai municipal government refunds certain taxes and provides special funds to support enterprises investing in what it considers high and new technology achievement transfer projects.

Shanghai Municipal Subsidy to Coal-Fired Power Plants for Emissions Reduction

Description: The Shanghai municipal government has established a special fund to subsidize coal-fired power plants in its jurisdiction for installing high-efficiency desulfurization facilities.